Dialog Group (DLG MK)

3QFY26: Upstream Mix Set To Surprise Positively

Highlights

- **9MFY26 core profit deemed above expectations.** The positive deviation is on downstream segment profit momentum beat our expectation again, like in 2QFY26. The earnings mix from upstream, midstream (storage) and downstream divisions were 25%, 50% and 25% respectively. While the midstream business is expected to sustain storage rates and utilisation at multi-cycle highs, DLG benefitted from higher O&G prices although the 3QFY26 upstream earnings fell due to lower production amid maintenance.
- **Maintain BUY with a higher target price of RM2.95 (from RM2.70).** This implies 27x/ 22x FY27F PE and EV/EBITDA respectively after forecasts upgrades. Our above-consensus target price is premised on the near-term upside surprise from upstream earnings. 4QFY26 should see the full benefit of higher O&G prices, followed by additional barrels from Cendramas and BJC in 1QFY27 and 2QFY27 respectively. In the larger context, the rebalancing of DLG's earnings mix away from storage (when DLG used to trade at >30x EV/EBITDA historically) may imply its long-term EV/EBITDA should more closely reflect integrated peers like ExxonMobil (11x) vs pure upstream producers like Hibiscus Petroleum (<2x).

9MFY26 Group Results

Year to 30 Jun	3QFY26	qoq	yoy	YTD FY26	yoy	Comments
(RMm)		% chg	% chg	(RMm)	% chg	Note: Vopak's accounts is Year to 31 Dec
Revenue	**696.9**	**(7.9)**	**20.4**	**2,110.2**	**11.5**	
- Malaysia	470.6	(6.4)	(33.6)	1,406.6	28.2	Sustained midstream; improved downstream
- Overseas	226.2	(10.9)	(55.2)	703.6	(11.6)	Better revenues from Thailand, Other Asia
JV/associates	74.0	(3.2)	(1.0)	211.6	5.7	POOS profit rose qoq from RM4m to RM7m
Finance costs	(13.8)	(5.2)	23.5	(41.8)	15.3	
PBT	**177.8**	**1.7**	**15.6**	**513.6**	**na**	
- Malaysia	155.7	0.9	28.5	449.7	268.0	
- Overseas	22.1	7.7	(32.3)	63.9	(11.6)	
PBT margin (%)	*25.5%*	*2.4%*	*-1.1%*	*24.3%*	*na*	
Tax	(17.6)	(26.3)	(7.3)	(56.4)	53.9	
Net Profit	**148.3**	**7.7**	**10.0**	**426.1**	**172.4**	**3QFY26 EI*: RM1.3m forex gain**
Core Profit	**147.0**	**7.6**	**8.5**	**447.3**	**35.5**	**YTD EI included RM25m gain in PT2SB**

*Source: Dialog (DLG) Group *Note: Exceptional Item (EI)*

Analysis

- **9MFY26 profit beat street estimates, comprising 86%/81% of our/consensus forecasts.** Similar to 2QFY26, downstream earnings recovery was stronger than expected, supported by various engineering, procurement, construction and commissioning (EPCC) projects. For 3QFY26, the earnings mix from upstream, midstream (storage) and downstream divisions were 25%, 50% and 25% respectively. This is markedly different vs FY25 where the corresponding earnings mix were 30-40%, 50-60% and n.a. respectively, as FY25 was the period of legacy EPCC losses. YOY earnings growth was also helped by the disposal of the loss-making recycled polyethylene terephthalate (Dialog Group's (DLG) first major energy transition venture), which was completed in Mar 26 with negligible gains/losses.

Key Financials

Year to 30 Jun (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	3,152	2,502	2,313	2,470	2,702
EBITDA	788	550	773	844	1,006
Operating profit	455	220	405	448	587
Net profit (rep./act.)	580	300	611	698	703
Net profit (adj.)	595	456	611	698	703
EPS	9.5	7.2	9.7	11.1	11.2
PE	22.6	29.8	22.1	19.3	19.2
P/B	2.3	2.3	2.2	2.1	1.9
EV/EBITDA	11.3	15.9	11.1	10.3	8.9
Dividend yield	1.8	1.3	1.8	2.1	2.1
Net margin	18.4	12.1	26.4	28.2	26.0
Net debt/(cash) to equity	2.2	n.m.	n.m.	0.5	1.7
Interest cover	12.2	11.3	15.2	15.3	16.1
ROE	13.9	7.5	14.3	15.6	15.0
Consensus net profit	-	-	558	603	619
UOBKH/Consensus (x)	-	-	1.09	1.16	1.13

Source: Dialog Berhad, Bloomberg, UOB Kay Hian

BUY (Maintained)

Share Price	RM2.14
Target Price	RM2.95
Upside	+37.9%
Previous TP	RM2.70

Analyst(s)
Kong Ho Meng
homeng@uobkayhian.com
+603 2147 1987

Stock Data

GICS Sector	Energy
Bloomberg ticker	DLG MK
Shares issued (m)	5,642.6
Market cap (RMm)	12.821.0
Market cap (US$m)	2,515,8.0
3-mth avg daily t'over (US$m)	7.4

Price Performance (%)

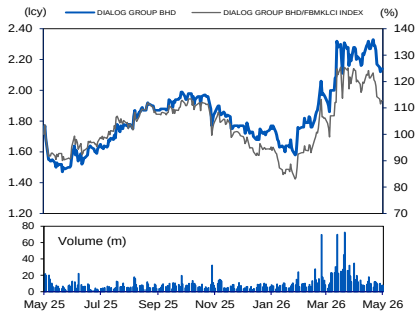
52-week high/low RM8.70/RM6.50

1mth	3mth	6mth	1yr	YTD
(6.1)	22.2	16.0	28.1	27.4

Major Shareholders

	%
Ngau Boon Keat	18.3
EPF	21.7
Azam Utama	7.6

Price Chart



Source: Bloomberg

Company Description

Dialog provides EPCC services and plant maintenance services. The company also owns O&G tank terminals, while marketing specialty chemicals and equipment. Dialog has joint operatorship of three storage terminals with Royal Vopak (Vopak), which is the world's largest independent storage player. The terminals are Kertih, Pengerang Independent Terminals SB (PITSB), and Pengerang Terminals (Two) SB (PT2SB).

- **Discontinuation of Jubail Supply Base (JSB) business was a good decision in hindsight.** The only key exposure to the Gulf is DLG's presence in the United Arab Emirates, most likely via this subsidiary Dialog Systems International FZE. Although we cannot clearly determine the business nature and status, we reckon DLG's direct exposure to the Straits is negligible as international operations contributed slightly above 10% of group PBT.
- **Storage remains stable and at multi-cycle highs.** Consistent with Royal Vopak's outlook, we understand that despite heightened security concerns, the crude and refined products storage in the Greater Singapore region remains stable and at multi-cycle highs, whereby utlilisation is over 90% and monthly storage rates average at $6-7/cbm. Vopak did highlight possible delayed sanctions of new storage terminals, as a negative variable of the US-Iran geopolitical effects. However, while storage rate upside is capped, we understand there is more activity on the terminal front, leading to sustained high levels of ancillary income (including throughput and handling fee).
- **Upstream production impacted by maintenance periods...** Although downstream was the main positive deviation for the 3QFY26 results, the upstream division clearly benefitted from higher realised O&G prices especially from Mar 26 onwards, when the US-Iran war lifted Brent prices beyond US$80/bbl. This can be observed via the Thailand JV upstream operations which recorded higher qoq profit, even though production volume in 3QFY26 continued to trend lower at 1,700-1,800 bpd (3QFY25: 2,000 bpd). However, 9MFY26 upstream earnings was still lower yoy due to lower production volume from the Malaysia fields in 3QFY26 amid equipment maintenance periods.
- **…but upstream will be the key driver for future profit upside.** In a protracted scenario of the US-Iran war, we expect a stronger 4QFY26 which will benefit from a full quarter impact of elevated O&G prices, on top of a rebound of volumes after the maintenance periods. After that, the upcoming 1QFY27 will see immediate contributions from the Cendramas PSC, which will become effective 23 Sep 26. Although the net production volume to DLG may reflect 2,500 boepd, which is smaller to the 3,000 net boepd that we estimated from the D35 PSC, the earnings potential is larger (please refer to RHS).
- **Establishing early production track record may bode well for its valuation.** Per our earlier company update, Baram Junior Cluster (BJC) will likely begin first production by Oct/Nov 26 or 2QFY27, ahead of Jan 25 (DLG's earlier guidance). Moreover, the guidance from Petronas on the potential production rates of 70-200mmscf/d is significant as it also implies a net production volume of 5,000-23,000 boepd, far larger vs its other existing PSCs on production fields. In totality, overall capital commitments for upstream operations have grown yoy from RM659m to RM749m.

Valuation/ Recommendation

- **Maintain BUY with a higher target price of RM2.95 (from RM2.70).** This implies 27x/22x FY27F PE and EV/EBITDA respectively after forecasts upgrades. We believe DLG warrants the high EV/EBITDA, relative to its historical three-year average of 12-19x, given the near-term potential for its upstream earnings to surprise on the upside. However, in the larger context, the rebalancing of DLG's earnings mix away from storage (when DLG used to trade at >30x EV/EBITDA historically) may imply its long-term EV/EBITDA should more closely reflect integrated peers like ExxonMobil (11x) vs pure upstream producers like Hibiscus Petroleum (<2x).

Earnings Revision/ Risk

- **2026F-28F earnings forecasts upgraded by 19%/29%/43%.** after factoring in the timing of new production startup from Cendramas and BJC, as well as higher O&G prices.

Baram Junior Cluster (BJC) Developments

i) On Jan 25, Petronas approved Dialog's $235m field development and abandonment plan (FDAP) for its Baram Junior Cluster small field asset (BJC SFA)

ii) BJC hosts the Salbiah, Bario, Betty Timur, Fatimah, Hasnah and Lembuk fields.

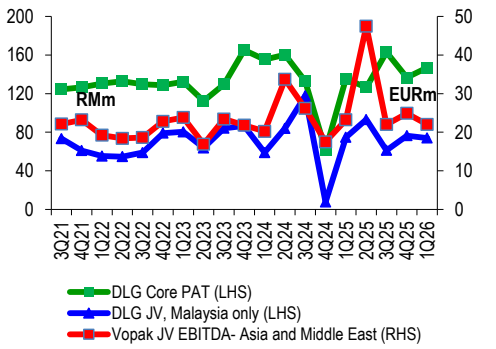
iii) Between 4 Aug and 15 Oct 25, Dialog performed host tie-in activities for its Salbiah drilling platform dubbed SLDP-A to the Petronas Carigali-operated Baronia central processing platform B (BNCPP-B)

iv) The Salbiah Wellhead Platform (WHP) had achieved sailaway by Mar 26 from the Brooke Sejingkat Fabrication Yard, and is now undergoing offshore installation.

Source: Dialog, Various

Source: Dialog, Various

Vopak's MENA* JV Terminals EBITDA** Generation In Comparison To DLG



Source:: DLG, Royal Vopak Results Presentations

Petrofac's Historical Financials on Cendramas, the former PM304 PSC

Petrofac Integrated Energy Services (IES) Data			
FYE Dec	**2021**	**2022**	**2023**
Net production , kboe	640	1,261	1,260
Net production rate, kboepd	1.8	3.5	3.5
Realised oil price, US$/bbl	*75*	*112*	*93*
US$m			
Revenue	50	137	121
EBITDA..	21	109	90
EBIT, normalised	(6)	58	34
Net profit, normalised	(5)	53	23
Net book value	84.	86	73
Net lease liabilities	59	52	38

**Note: PM304 PSC stakeholders: Petrofac (35.3%), Petronas Carigali (35.3%), KUFPEC (29.4%). This PSC expires in Sep 26*
***Note: Jump in 2022 revenue due to higher O&G prices and full recognition of East Cendor which had first oil in 2021*
****Note: Lease liabitilities relates to FPSO Cendor bareboat charter*
*****Note: Recap that Medco Energi revealed potential synergies to another existing asset of Medco, the South Natuna Sea Block B.*
******Note: Assuming same parameters as Petrofac but adjusted for DLG's 25% stake, we reckon DLG's earnings from Cendramas may be >US$30m on a full year basis, implying >23% of earnings upside, and under the assumption oil price will remain elevated like 2022*
Source:: Petrofac

Profit & Loss

Year to 30 Jun (RMm)	2025	2026F	2027F	2028F
Net turnover	**2,502**	2,313	2,470	2,702
EBITDA	550	773	844	1,006
Deprec. & amort.	329	370	397	420
EBIT	220	405	448	587
Total other non-operating income	n.a.	n.a.	n.a.	n.a.
Associate contributions	293	319	382	253
Net interest income/(expense)	(49)	(50)	(54)	(61)
Pre-tax profit	**376**	**673**	**774**	**777**
Tax	(66)	(47)	(54)	(54)
Minorities	(6)	(15)	(22)	(20)
Net profit	**304**	**611**	**698**	**703**

Balance Sheet

Year to 30 Jun (RMm)	2025	2026F	2027F	2028F
Fixed assets	2,644	2,862	3,074	3,253
Other LT assets	2,522	2,822	3,122	3,375
Cash/ST investment	1,670	1,755	1,884	2,032
Other current assets	483	417	419	445
Total assets	**8,687**	**8,937**	**9,514**	**10,171**
ST debt	861	1,175	1,323	1,482
Other current liabilities	809	739	758	781
LT debt	861	1,175	1,323	1,482
Other LT liabilities	21	21	21	21
Shareholders' equity	5,741	6,052	6,377	6,672
Minority interest	502	524	520	638
Total liabilities and equity	**8,687**	**8,937**	**9,514**	**10,171**

Cash Flow

Year to 30 Jun (RMm)	2025	2026F	2027F	2028F
Operating	**1,187**	**1,342**	**1,260**	**1,383**
Pre-tax profit	376	574	606	549606
Tax	(80)	(40)	(42)	(42)
Deprec. & amort.	329	370	397	397
Working capital changes	273	20	15	(4)
Other operating cashflows	119	120	124	131
Investing	**(479)**	**(800)**	**(800)**	**(753)**
Capex (growth)	(118)	(250)	(250)	(250)
Investments	(359)	(300)	(300)	(253)
Others	(2)	(250)	(250)	(250)
Financing	**(418)**	**(157)**	**(171)**	**(157)**
Proceeds from borrowings	(76)	250	250	250
Loan repayment	(49)	(50)	(54)	(61)
Others/interest paid	(293)	(357)	(367)	(347)
Net cash inflow (outflow)	**120**	**86**	**129**	**148**
Beginning cash & cash equivalent	**1,572**	**1,669**	**1,755**	**1,884**
Changes due to forex impact	(22)	0	0	0

Year to 30 Jun (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	22.0	31.2	31.1	33.8
Pre-tax margin	15.0	26.6	27.9	23.9
Net margin	12.1	24.0	24.9	21.3
ROA	4.7	8.0	8.0	6.9
ROE	11.2	12.2	12.3	10.8
Growth				
Turnover	(1.3)	(14.9)	(14.4)	(9.2)
EBITDA	56.3	91.8	92.3	121.3
Pre-tax profit	1.9	55.6	64.4	49.0
Net profit	3.0	75.6	83.6	66.6
Net profit (adj.)	57.9	79.4	87.5	70.1
EPS	57.9	79.4	87.5	70.1
Leverage				
Debt to total capital	25.4	25.9	27.7	29.3
Debt to equity	27.6	28.1	30.0	32.1
Net debt/(cash) to equity	-	-	0.5	1.7
Interest cover (x)	11.3	13.5	12.5	12.8

IMPORTANT NOTICE - DISCLOSURES AND DISCLAIMERS

This report is provided subject to various disclosures and disclaimers (the "Disclosures / Disclaimers") which form an integral part of this report and are available at the following link: https://research-api.uobkayhian.com/assets/disclaimer/df64a6ea-7980-447c-ae9e-fd19b93257dc or by scanning the QR code below:

The Disclosures / Disclaimers contain important information, including without limitation, (a) exclusions of liability, (b) confidentiality obligations, (c) restrictions on publication, circulation, reproduction, distribution and use of the report, (d) potential conflicts of interest, and (e) disclosures and requirements specific to recipients in the United States and other applicable jurisdictions.

Specifically, this report is intended for general circulation and informational purposes only and does not take into account the specific investment objectives, financial situation, or particular needs of any individual person. It is not intended to constitute personal investment advice or a recommendation to buy or sell any investment product or security. You should independently evaluate the information and, where necessary, seek advice from a qualified financial adviser regarding the suitability of any investment, taking into account your specific objectives, financial situation and needs, before making any investment decision. Analyst certifications required under applicable regulations, including SEC Regulation AC (where relevant), are included in this report.

Recipients of this report must carefully read, review and understand the full Disclosures / Disclaimers before using or relying on any information in this report. By accessing, receiving or using this report, you acknowledge and confirm that you have read, understood, accepted and agreed to be bound by the Disclosures / Disclaimers (as may be amended or updated from time to time) in full."